

Message Text

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ACTION EB-07

INFO OCT-01 EA-06 ISO-00 XMB-02 FEA-01 ERDA-05 AID-05

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R 050800Z MAR 75

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TO SECSTATE WASHDC 6908

INFO AMCONSUL HONG KONG

N/AMEMBASSY SINGAPORE 3121

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

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DEPARTMENT PASS TO EXIMBANK

E.O. 11652: N/A

TAGS: EFIN ENRG

SUBJECT: U.S. BANKERS REVIEW PERTAMINA FINANCES

1. BEING SUMMARY: PERTAMINA, INDONESIA'S STATE OIL COMPANY, FROM FEBRUARY 25 THROUGH MARCH 2 HOSTED VISIT OF 28 U.S. BANKERS TO REVIEW PERTAMINA PROJECTS AND FINANCIAL SITUATION. VISIT WAS BENEFICIAL IN EMPHASIZING TO GOI AND PERTAMNIA IMPORTANCE OF EARLY SOLUTION FOR LATTER'S FINANCIAL DIFFICULTIES. BANKERS AND HOSTS TOOK CONSTRUCTIVE APPROACH AND VISIT ENDED WITH GENERALLY OPTIMISTIC EXPECTATIONS THAT NECESSARY DECISIONS WOULD BE MADE TO SOLVE PRESENT FINANCIAL CRISIS. ND SUMMARY.

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2. PERTAMINA'S PRESIDENT, GENERAL IBNU SUTOWO, MET U.S. BANK REPRESENTATIVES IN NEW YORK IN LATE JANUARY. HE INVITED BANKS TO SEND REPRESENTATIVES TO INDONESIA FOR FURTHER DISCUSSIONS AND FIRST-HAND VIEW OF PERTAMINA OPERATIONS. FOURTEEN BANKS RESPONDED, SENDING 28 REPRESENTATIVES. PERTAMINA'S FINANCIAL CONSULTANT, LEHMAN BROTHERS, ASSISTED IN PREPARATIONS FOR VISIT. PROGRAM INCLUDED MEETINGS WITH GENERAL IBNU, TOP PERTAMINA AND MINING DEPARTMENT STAFF, VISITS TO PERTAMINA PROJECTS (CILACAP REFINERY, JATIBARANG OIL FIELD, PLAJU FERTILIZER AND FUTURE AROMATICS CENTER, OFFSHORE OIL INSTALLATION, AND BATAM ISLAND), AND DAY-LONG SESSION WITH PERTAMINA FINANCIAL OFFICIALS.

3. PERTAMINA'S FAILURE TO PAY OFF \$40 MILLION SHORT-TERM LOAN FROM U.S. BANK SYNDICATE, DUE FEBRUARY 17, CREATED SERIOUS CONCERN THAT BANKERS VISIT COULD PRECIPITATE CONFRONTATION BETWEEN BANKERS AND PERTAMINA. FORTUNATELY, THIS ARREARAGE APPARENTLY HELPED PRECIPITATE INSTEAD DECISIONS BOTH WITHIN PERTAMINA AND GOVERNMENT. AS A RESULT, PERTAMINA WAS ABLE TO SETTLE ARREARAGE DURING BANKERS VISIT, AND TO PERSUADE BANKERS THAT HIGHEST LEVEL OFFICIALS RECOGNIZED SERIOUSNESS OF PERTAMINA'S FINANCIAL PROBLEMS AND WERE SEEKING CONSTRUCTIVE SOLUTIONS. INDIVIDUAL BANKERS HAD APPEARED TEMPTED TO TAKE COMBATIVE POSTURE. EFFORTS BY LEHMAN BROTHERS REPRESENTATIVE AND PERTAMINA OFFICIALS PREVENTED THIS OUTCOME, AS DID REMINDERS BY OTHER BANKERS THAT BANKS THEMSELVES BY THEIR PREVIOUS EAGERNESS TO LEND TO PERTAMINA WERE PARTLY RESPONSIBLE FOR PERTAMINA'S PRESENT SHORT-TERM DIFFICULTIES.

4. BANKERS WERE NEVERTHELESS POLITELY AND EFFECTIVELY CANDID IN STATING REQUIREMENTS FOR FUTURE BANK COOPERATION IN MEETING PERTAMINA'S FINANCIAL NEEDS. BANKERS NOTED PROSPECTIVE CONCERN BY U.S. FEDERAL RESERVE BOARD OVER QUALITY OF BANK LENDING TO PERTAMINA. THEY CITED AS IMPORTANT LIMITED OFFICIAL USE

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REQUIREMENTS FOR SOUND FUTURE RELATIONS:

A) MORE CURRENT AND COMPLETE (AND AUDITED) FINANCIAL STATEMENTS, AND

B) NEED FOR CONSOLIDATION AND/OR REORGANIZATION OF PERTAMINA'S FINANCIAL OFFICIALDOM. (BANKERS STATEMENTS OF NEEDS FOR IMPROVEMENTS IN PERTAMINA'S PERFORMANCE WERE

REINFORCED BY VERY SIMILAR POINTS MADE FURING RECENT
VISIT OF U.S. EXIM DIRECTOR JOHN CLARK.)

5. BANKERS OBTAINED GENERALLY FAVORABLE IMPRESSION OF
PERTAMINA PERFORMANCE IN PROJECTS VISITED AND APPEARED
SATISFIED WITH PRESENTATION BY PERTAMINA FINANCIAL
OFFICIALS. DIRECT FAMILIARIZATION WITH PERTAMINA
OFFICIALS AND PROJECTS APPEARED AS MAJOR BENEFIT OF
VISIT.

6. PERTAMINA OFFICIALS WERE UNABLE TO PROVIDE CLEAR
STATEMENTS OF EXACT SOLUTIONS ENVISAGED FOR PERTAMINA'S
CURRENT FINANCIAL DIFFICULTIES. HOWEVER, FROM
DISCUSSIONS WITH OTHER SOURCES, MOST BANKERS APPEARED
PERSUADED THAT GOVERNMENT WOULD COVER PERTAMINA'S
OBLIGATIONS AND THT DECISION WOUOD BE FORTHCOMING
TO RESOLVE ITS PROBLEMS ON A LONGER TERM BASIS.
OUR IMPRESSION IS THT MOST BANKERS WILL ENCOURAGE
PATIENCE AN CAUTIOUS OPTIMISM BY THEIR HOME OFFICES
IN NEAR-TERM RELATIONS WITH PERTAMINA. HOWEVER, WE
ALSO FEEL THAT BANKERS ARE LIKELY TO BE MORE DEMANDING
OF DATA AND PROJECTIONS TRADITIONAL TO MORE CON-
SERVATIVE BANKING PRACTICES THAN HAVE BEEN EXERCISED
IN PAST U.S. BANK LENDING TO PERTAMINA.
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